

Principal Distribution Certificates

INSIDE THIS GUIDE:

This guide describes principal distribution certificates, where members receive periodic income in the form of checks or transfers during the term of the certificate, in addition to dividends.

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Introduction

Principal distribution certificates offer credit unions a way to market savings products to members with higher balances. Members looking to incrementally receive funds from their accounts will appreciate this service.

Credit unions can configure Certificate Types to offer the principal distribution feature (by making it required or optional within the Certificate Type's configuration). Then, when a certificate of this type is opened, the MSR simply enters the principal distribution amount and selects whether the member wants to receive funds in the form of a check or as a transfer to a different sub account.

Principal distribution funds are disbursed separately from dividend payments, so members have the option of disbursing these funds using different methods. For example, the member could transfer their dividend payments to their checking account and receive their principal distribution disbursement in the form of a check to send to their broker.

Certificate Processing

Principal distribution processing occurs during dividend processing, with the posting of principal distributions (Tran Code 43, Tran Type 38) directly following the payment of dividends (Tran Code 43, Tran Type 39).

When a certificate is opened, its default *Principal distribution method* will default to the *Default renewal code* of the Certificate Type. The two options for the *Principal distribution method* are Check or Transfer – this indicates how the funds will be disbursed to the member. If the *Principal distribution method* of Transfer to is selected, a transfer account must be entered. (This account is indicated by the *Trnsfr/rdmpt/princ dist acct* field in the Account Information Update screen within **Tool #20 Update** *Account Information*.)

 Dividend disbursements on the other hand are processed according to the separate Dividend disburse code configuration. (Options include addback, transfer, check, or on demand.)

If dividends and principal distributions are both disbursed by check, they are mailed as separate checks. Both checks are mailed to the default address of the membership: the primary owner's address. The pay to *Address* can be changed when opening the certificate or after selecting **Div Check Pay to** in the Account Information Update screen within **Tool #20**; however, both dividend and principal distribution checks are sent to the same address. (If a dividend check is set to be mailed to an alternate address, a principal distribution check will automatically also be sent there as well.) When **Tool #632** *Print Auto/Mail Checks* is used to select which checks to print, the **Certificate dividend checks** checkbox also controls the selection of the principal distribution checks.

Upon maturity, any funds remaining in a principal distribution certificate that have not been disbursed will be paid in a final lump sum disbursement, via check or transfer (according to the renewal code of the certificate). This check is also sent to the primary address on the membership (or other pay to address if indicated by the certificate).

There are some instances where principal distributions will not be disbursed. If at any time there is not enough money in the certificate to make the principal distribution disbursement, the funds will remain in the certificate and an exception will be printed to the exception report. Additionally, if the certificate's funds are frozen for withdrawals (freeze codes 1 and 3), principal distributions will not be posted but will also appear on the exception report. Refer to page 10 for an example of the exception report.

It is not recommended that a certificate with a principal distribution be used to secure a loan or any other account. However, if it is, principal distributions will continue as usual as long as the distribution is over and above the secured amount. In rare cases where dispersing the principal distribution would take the secured funds negative, the principal distribution will not be dispersed and will appear in the exception report.

Note on Online Banking

Certificate products with principal distributions are not supported at this time via **It's Me 247**. There is no way to disclose special details pertinent to this sort of account online, and there is no place for the member to indicate a principal disbursement amount. It is not recommended that credits unions offer these products on online rate boards or that they allow members to open this type of certificate online.

Configuration Considerations

Whether a certificate allows for the principal distribution feature is dependent on its Certificate Type configuration.

The Allow principal distributions selection on the Certificate Type configuration screen in **Tool #194** Certificate Products Configuration determines whether principal distributions are required, allowed, or blocked.

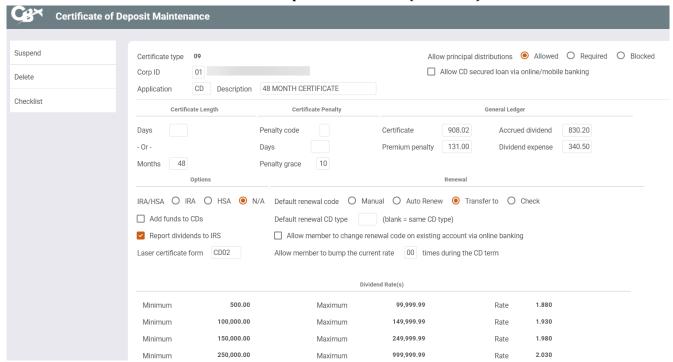
Allow principal distributions		Allowed	0	Required	0	Blocked
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- Allowed (A) When the certificate is opened, the MSR has the option of setting up a principal distribution or not. The feature is allowed but is not required. This might be used if the credit union wants to use an existing Certificate Type for its members wanting this service. (In this case, it is recommended that the Default renewal code be "Transfer to" or "Check" for this type to function correctly when opening a certificate with a principal distribution.)
- Required (R) All certificates created with this type will require the entry of a principal distribution amount. Credit unions may choose to create specific Certificate Types configured in this manner for use only with their principal distribution offering.
- Blocked (N) This is the default for all Certificate Types. Principal distributions are not allowed for certificates created with this type.

Certificate Type Default Renewal Code

At certificate open, the Default renewal code of the Certificate Type is used as the default for the Principal distribution method. The default renewal code of the type is also used to determine how to handle the payment of funds remaining in the account at the end of its term. Therefore, types designed for use with principal distributions should have a renewal code of either "Transfer to" or "Check". Additionally, when the Certificate Type configuration allows or requires principal distributions, the Allow member to change renewal code on existing account via online banking checkbox may not be checked.

Certificate of Deposit Maintenance (Tool #194)

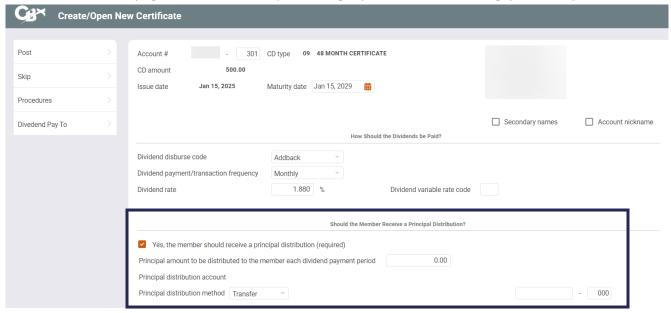


Opening A Certificate

Certificate Types Requiring Principal Distributions

If the Certificate Type requires principal distributions, the corresponding fields will appear automatically in the Should the Member Receive a Principal Distribution section. The *Principal disbursement method* is flooded with the default renewal code of the Certificate Type. In the example above, this was Transfer to; however, this could be changed to Check at this time. If Transfer is selected, the transfer account must be entered. In all cases, the *Principal amount to be distributed to the member each dividend payment period* must be entered. This is not system generated; the credit union enters an amount based on its own policy.

Create/Open New Certificate (Tool #3 Open/Maintain Memberships/Accounts)



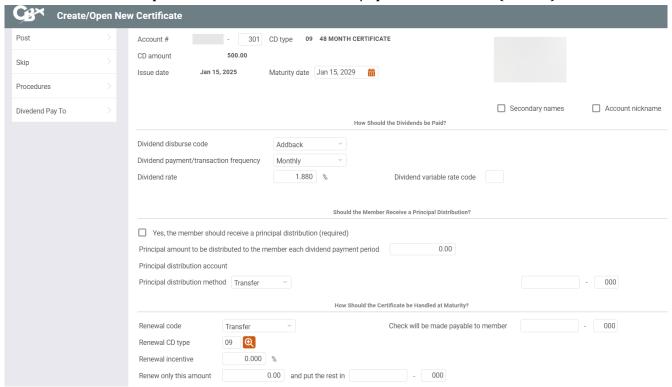
Note on Changing the Pay To Address for Check Disbursement

If "Check" is selected as the *Principal disbursement method*, the check will be sent to the address of the Primary member on the membership – unless the pay to address has already been changed, for example, to send a dividend check to an alternate address. (Both dividend and principal distribution checks are mailed to the same address.) To change the pay to address, use **Dividend Pay To** from the screen shown above and change to the desired address. This address change can also be made on the Account Update screen (**Tool #20**).

 By changing this address, the member could select to send their principal distribution payments to a broker or other person.

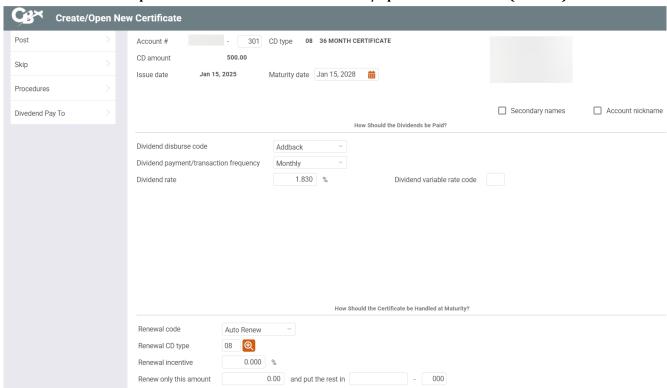
Certificates Not Requiring Principal Distributions

Principal Distributions Allowed - Create/Open New Certificate (Tool #3)



If the certificate allows principal distributions, the MSR just needs to fill in the principal distribution fields.

Principal Distributions Not Allowed - Create/Open New Certificate (Tool #3)

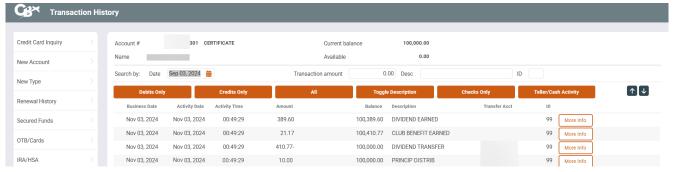


If the Certificate Type does not allow for principal distributions, the principal distribution fields will not appear on the screen.

Transaction History, Inquiry, and Update Screens

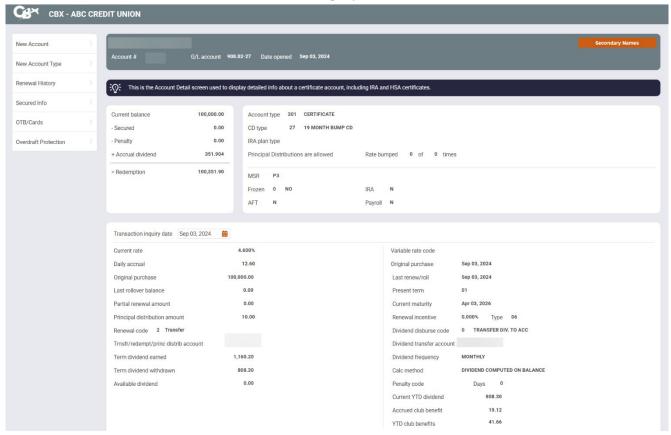
The Transaction History screen lists the distributions as a separate line item, separate from the dividend amount. Both are posted at the same time.

Transaction History (Inquiry)

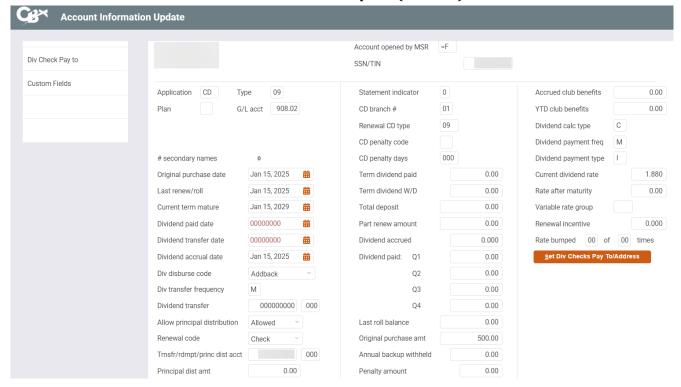


Both the Inquiry and Update views show the principal distribution information.

Inquiry



Account Information Update (Tool #20)



Changes to the principal distribution fields in Account Information Update require Tier 2 Security.

As mentioned earlier, principal distribution checks are mailed to the same address as dividend checks. This pay to address is by default the primary address on the account. By clicking **Set Div Checks Pay To/Address**, a credit union employee can change the pay to address for principal distribution checks.

NOTE: This address is also used for the distribution of dividend payment checks.

Reports

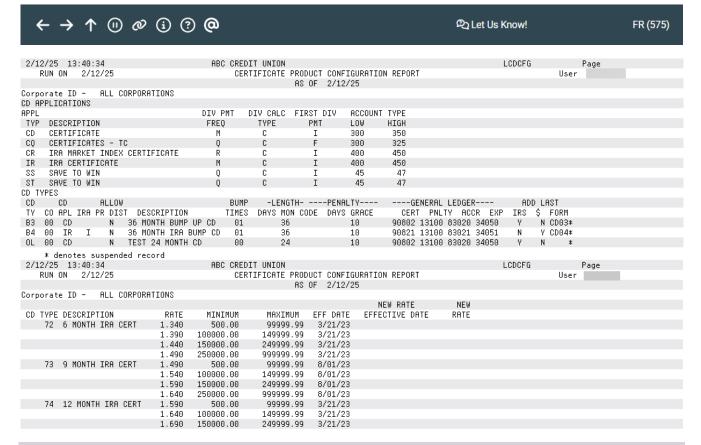
There is one report you can generate on-demand in CBX: the Certificate Product Configuration Report. Two CU*SPY Daily Reports assist credit unions who have certificates allowing principal distributions: Certificate Principal Distribution Report and Certificate Processing Exceptions Report. These reports are generated with the dividend posting reports at Beginning of Day.

Certificate Product Configuration Report

The Certificate Product Configuration Report lists whether a Certificate Type allows principal distributions.

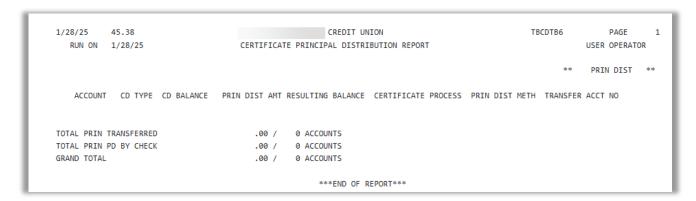
Print CD Configuration Report (Tool #635)





Certificate Principal Distribution Report

The Certificate Principal Distribution Report (TBCDTB6) lists the principal distribution information.



Certificate Processing Exceptions

The Certificate Processing Exceptions Report (TBDTB3) lists, among other exceptions, instances when there were not enough available funds to process the principal distribution payment. This may occur due

to insufficient funds, funds being frozen, or because funds are being used as secured funds. Refer to page 3.

